Case 5

Gillette and the men's wet-shaving market

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SAN FRANCISCO

On a spring morning in 1989, Michael Johnson dried himself and stepped from the shower in his San Francisco Marina District condominium. He moved to the sink and started to slide open the drawer in the cabinet beneath the sink. Then he remembered that he had thrown away his last Atra blade yesterday. He heard his wife, Susan, walk past the bathroom.

'Hey, Susan, did you remember to pick up some blades for me yesterday?'

'Yes, I think I put them in your drawer.'

'Oh, okay, here they are.' Michael saw the bottom of the blade package and pulled the drawer open.

'Oh, no! These are Trac II blades, Susan, I use an Atra.'

'I'm sorry. I looked at all the packages at the drugstore, but I couldn't remember which type of razor you have. Can't you use the Trac II blades on your razor?'

'No. They don't fit.'

'Well, I bought some disposable razors. Just use one of those.'

'Well, where are they?'

'Look below the sink. They're in a big bag.'

'I see them. Wow, 10 razors for $1.97! Must have been on sale.'

'I guess so. I usually look for the best deal. Seems to me that all those razors are the same, and the drugstore usually has one brand or another on sale.'

'Why don't you buy some of those shavers made for women?'

'I've tried those, but it seems that they're just like the ones made for men, only they've dyed the plastic pink or some pastel colour. Why should I pay more for colour?'

'Why don't you just use disposables?' Susan continued. 'They are simpler to buy, and you just throw them away. And you can't beat the price.'

'Well, the few times I've tried them they didn't seem to shave as well as a regular razor. Perhaps they've improved. Do they work for you?'

'Yes, they work fine. And they sure are better than the heavy razors if you drop one on your foot while you're in the shower!'

'Never thought about that. I see your point. Well, I'll give the disposable a try.'

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History of shaving

Anthropologists do not know exactly when or even why men began to shave. Researchers do know that prehistoric cave drawings clearly present men who were beardless. Apparently these men shaved with clamshells or sharpened animal teeth. As society developed, primitive men learned to sharpen flint implements. Members of the early Egyptian dynasties as far back as 7 000 years ago shaved their faces and heads, probably to deny their enemies anything to grab during hand-to-hand combat. Egyptians later fashioned copper razors and, in time, bronze blades. Craftsmen formed these early razors as crescent-shaped knife blades, like hatchets or meat cleavers, or even as circular blades with a handle extending from the centre. By the Iron Age, craftsmen were able to fashion blades that were considerably more efficient than the early flint, copper and bronze versions.

Before the introduction of the safety razor, men used a straight-edged, hook-type razor and found shaving a tedious, difficult and time-consuming task. The typical man struggled through shaving twice a week at most. The shaver had to sharpen the blade (a process called stropping) before each use and had to have an expert cutler hone the blade each month. As a result, men often cut themselves while shaving; and few men had the patience and acquired the necessary skill to become good shavers. Most men in the 1800s agreed with the old Russian proverb: 'It is easier to bear a child once a year than to shave every day.' Only the rich could afford a daily barber shave, which also often had its disadvantages because many barbers were unclean.

Before King C. Gillette of Boston invented the safety razor in 1895, he tinkered with other inventions in pursuit of a product which, once used, would be thrown away. The customer would have to buy more, and the business would build a long-term stream of sales and profits with each new customer.

'On one particular morning when I started to shave,' wrote Gillette about the dawn of his invention, 'I found my razor dull, and it was not only dull but beyond the point of successful stropping and it needed honing, for which it must be taken to a barber or cutler. As I stood there with the razor in my hand, my eyes resting on it as lightly as a bird settling down on its nest, the Gillette razor was born.' Gillette immediately wrote to his wife, who was visiting relatives, 'I've got it; our fortune is made.'

Gillette had envisioned a 'permanent' razor handle on to which the shaver placed a thin, razor 'blade' with two sharpened edges. The shaver would place a top over the blade and attach it to the handle so that only the sharpened edges of the blade were exposed, thus producing a 'safe' shave. A man would shave with the blade until it became dull and then would simply throw the used blade away and replace it. Gillette knew his concept would revolutionise the process of shaving; however, he had no idea that his creation would permanently change men's shaving habits.

Shaving in the 1980s

Following the invention of the safety razor, the men's shaving industry in the United States grew slowly but surely through the First World War. A period of rapid growth followed, and the industry saw many product innovations. By 1989, US domestic razor and blade sales (the wet-shave market) had grown to a US$770 million industry. A man could use three types of wet shavers to remove facial hair. Most men used the disposable razor – a cheap, plastic-handled razor that lasted for eight to 10 shaves on average. Permanent razors, called blade and razor systems, were also popular. These razors required new blades every 11 to 14 shaves. Customers could purchase razor handles and blade cartridges together, or they could purchase packages of blade cartridges as refills. The third category of wet shavers included injector and double-edge razors and accounted for a small share of the razor market. Between 1980 and 1988, disposable razors had risen from a 22 per cent to a 41.5 per cent market share of dollar sales. During the same period, cartridge systems had fallen from 50 per cent to 45.8 per cent and injector and double-edge types had fallen from 28 per cent to 12.7 per cent. In addition, the development of the electric razor had spawned the dry-shave market, which accounted for about US$250 million in sales by 1988.

Despite the popularity of disposable razors, manufacturers found that the razors were expensive to make and generated very little profit. In 1988, some industry analysts estimated that manufacturers earned three times more on a razor and blade system than on a disposable razor. Also, retailers preferred to sell razor systems because they took up less room on display racks and the retailers made more money on refill sales. However, retailers liked to promote disposable razors to generate traffic. As a result, US retailers allocated 55 per cent of their blade and razor stock to disposable razors, 40 per cent to systems and 5 per cent to double-edge razors.

Electric razors also posed a threat to razor and blade systems. Unit sales of electric razors jumped from

6.2 million in 1981 to 8.8 million in 1987. Low-priced imports from the Far East drove demand for electric razors up and prices down during this period. Nonetheless, fewer than 30 per cent of men used electric razors, and most of these men also used wet-shaving systems.

Industry analysts predicted that manufacturers' sales of personal care products would continue to grow. However, the slowing of the overall US economy in the late 1980s meant that sales increases resulting from an expanding market would be minimal and companies would have to fight for market share to continue to increase sales.

The Gillette Company dominated the wet-shave market with a 60 per cent share of worldwide razor market revenue and a 61.9 per cent share of the US market as of 1988. Gillette also had a stake in the dry-shave business through its Braun subsidiary. The other players in the wet-shave market were Schick with 16.2 per cent of market revenues, BIC with 9.3 per cent, and others, including Wilkinson Sword, with the remaining 12.6 per cent.

The Gillette Company

King Gillette took eight years to perfect his safety razor. In 1903, the first year of marketing, the American Safety Razor Company sold 51 razors and 168 blades. Gillette promoted the safety razor as a saver of both time and money. Early ads proclaimed that the razor would save US$52 and 15 days' shaving time each year and that the blades required no stropping or honing. During its second year, Gillette sold 90 884 razors and 123 648 blades. By its third year, razor sales were rising at a rate of 400 per cent per year, and blade sales were booming at an annual rate of 1 000 per cent. In that year, the company opened its first overseas branch in London.

Such success attracted much attention, and competition quickly developed. By 1906, consumers had at least a dozen safety razors from which to choose. The Gillette razor sold for US$5, as did the Zinn razor made by the Gem Cutlery Company. Others, such as the Ever Ready, Gem Junior and Enders, sold for as little as US$1.

With the benefit of a 17-year patent, Gillette found himself in a very advantageous position. However, it was not until the First World War that the safety razor gained wide consumer acceptance. One day in 1917, King Gillette had a visionary idea: have the government present a Gillette razor to every soldier, sailor and marine. In this way, millions of men just entering the shaving age would adopt the self-shaving habit. By March 1918, Gillette had booked orders from the US military for 519 750 razors, more than it had sold in any single year in its history. During the First World War, the government bought 4 180 000 Gillette razors as well as smaller quantities of competitive models.

Although King Gillette believed in the quality of his product, he realised that marketing, especially distribution and advertising, would be the key to success. From the beginning, Gillette set aside 25 cents per razor for advertising and by 1905 had increased the amount to 50 cents. Over the years, Gillette used cartoon ads, radio shows, musical slogans and theme songs, prizes, contests and cross-promotions to push its products. Perhaps, however, consumers best remember Gillette for its Cavalcade of Sports programs that began in 1939 with the company's sponsorship of the World Series. Millions of men soon came to know Sharpie the Parrot and the tag line, 'Look Sharp! Feel Sharp! Be Sharp!'

Because company founder King Gillette invented the first safety razor, Gillette had always been an industry innovator. In 1932, Gillette introduced the Gillette Blue Blade, which was the premier men's razor for many years. In 1938, the company introduced the Gillette Thin Blade; in 1946, it introduced the first blade dispenser that eliminated the need to unwrap individual blades; in 1959, it introduced the first silicone-coated blade, the Super Blue Blade. The success of the Super Blue Blade caused Gillette to close 1961 with a commanding 70 per cent share of the overall razor and blade market and a 90 per cent share of the double-edge market, the only market in which it competed.

In 1948, Gillette began to diversity into new markets through acquisition. The company purchased the Toni Company to extend its reach into the women's grooming-aid market. In 1954, the company bought Paper Mate, a leading marker of writing instruments. In 1962, it acquired the Sterilon Corporation, which manufactured disposable hospital supplies. As a result of these moves, a marketing survey found that the public associated Gillette with personal grooming as much as, or more than, with blades and razors.

In 1988, the Gillette Company was a leading producer of men's and women's grooming aids. Exhibit 1 lists the company's major divisions. Exhibits 2 and 3 show the percentages and dollar volumes of net sales and profits from operations for each of the company's major business segments. Exhibits 4 and 5 present income statements and balance sheets for 1986–8.

Despite its diversification, Gillette continued to realise the importance of blade and razor sales to the company's overall health. Gillette had a strong foothold in the razor and blade market, and it intended to use this dominance to help it achieve the company's goal – 'sustained profitable growth'. To reach this goal, Gillette's mission statement indicated that the company should pursue 'strong technical and marketing efforts to assure vitality in major existing product lines; selective diversification, both internally and through acquisition; the elimination of product and business areas with low growth or limited profit potential; and strict control over product costs, overhead expenses, and working capital'.

Gillette introduced a number of innovative shaving systems in the 1970s and 1980s as part of its strategy to

Exhibit 1 | Gillette product lines by company division, 1988

Blades and razors	Stationery products	Toiletries and cosmetics	Oral B products	Braun products
Trac II	Paper Mate	Adorn	Oral B toothbrushes	Electric razors
Atra	Liquid Paper	Toni		Lady Elegance
Good News	Flair	Right Guard		Clocks
	Waterman	Silkience		Coffee grinders
	Write Bros.	Soft and Dri		and makers
		Foamy		
		Dry Look		
		Dry Idea		
		White Rain		
		Lustrasilk		
		Aapri skin care products		

Exhibit 2 | Gillette's sales and operating profits by product line, 1986–8 (US$mn)

	1988		1987		1986	
Product line	Sales	Profits	Sales	Profits	Sales	Profits
Blades and razors	$1 147	$406	$1 031	$334	$903	$274
Toiletries and cosmetics	1 019	79	926	99	854	69
Stationery products	385	56	320	34	298	11
Braun products	824	85	703	72	657	63
Oral B	202	18	183	7	148	8
Other	5	(0.1)	4	2	48	(1)
Totals	$3 582	$643	$3 167	$548	$2 908	$424

Source: Gillette Company Annual Reports, 1985–8.

Exhibit 3 | Gillette's net sales and profit by business, 1984–8 (per cent)

	Blades and razors		Toiletries and cosmetics		Stationery products		Braun products		Oral B products	
Year	Sales	Profits	Sales	Profits	Sales	Profits	Sales	Profits	Sales	Profits
1988	32	61	28	14	11	9	23	13	6	3
1987	33	61	29	18	10	6	22	13	6	2
1986	32	64	30	16	11	3	20	15	5	2
1985	33	68	31	15	11	2	17	13	6	3
1984	34	69	30	15	12	3	17	12	3	2

Source: Gillette Company Annual Reports, 1985–8.

sustain growth. Gillette claimed that Trac II, the first twin-blade shaver, represented the most revolutionary shaving advance ever. The development of the twin-blade razor derived from shaving researchers' discovery that shaving causes whiskers to be briefly lifted up out of the follicle during shaving, a process called 'hysteresis' by technicians. Gillette invented the twin-blade system so that the first blade would cut the whisker and the second blade would cut it again before it receded. This system produced a closer shave than a

Exhibit 4 | Gillette income statements, 1986–8 (US$mn except for per share data)

	1988	1987	1986
Net sales	$3 581.2	$3 166.8	$2 818.3
Cost of sales	1 487.4	1 342.3	1 183.8
Other expenses	1 479.8	1 301.3	1 412.0
Operating income	614.0	523.2	222.5
Other income	37.2	30.9	38.2
Earnings before interest and tax	651.2	545.1	260.7
Interest expense	138.3	112.5	85.2
Non-operating expense	64.3	50.1	124.0
Earnings before tax	448.6	391.5	51.5
Tax	180.1	161.6	35.7
Earnings after tax	268.5	229.9	15.8
Earnings per share	2.45	2.00	.12
Average common shares outstanding, 000	109 559	115 072	127 344
Dividends paid per share	$0.86	$0.785	$0.68
Stock price range			
High	$49	$45 7/8	$34 1/2
Low	$29 1/8	$17 5/8	$17 1/8

Source: Gillette Company Annual Reports, 1986–8.

Exhibit 5 | Gillette balance sheets, 1986–8 (US$mn)

		1988	1987	1986
Assets	Cash	$ 156.4	$ 119.1	$ 94.8
	Receivables	729.1	680.1	608.8
	Inventories	653.4	594.5	603.1
	Other current assets	200.8	184.5	183.0
	Total current assets	1 739.7	1 578.2	1 489.7
	Fixed assets, net	683.1	664.4	637.3
	Other assets	445.1	448.6	412.5
	TOTAL ASSETS	2 867.9	2 731.2	2 539.5
Liabilities and equity	Current liabilities*	965.4	960.5	900.7
	Long-term debt	1 675.2	839.6	915.2
	Other long-term liabilities	311.9	331.7	262.8
	Equity†	$ (84.6)	$ 599.4	$ 460.8

* Includes current portion of long-term debt: 1988 = $9.6, 1987 = $41.0, 1986 = $7.6.

† Includes retained earnings: 1988 = $1 261.6, 1987 = $1 083.8, 1986 = $944.3.

Source: Gillette Company Annual Reports, 1986–8.

traditional one-blade system. Gillette also developed a clog-free, dual-blade cartridge for the Trac II system.

Because consumer test data showed a 9-to-1 preference for Trac II over panellists' current razors, Gillette raced to get the product to market. Gillette supported Trac II's 1971 introduction, which was the largest new product introduction in shaving history, with a US$10 million advertising and promotion budget. Gillette cut its advertising budgets for its other brands drastically to support Trac II. The double-edge portion of the advertising budget decreased from 47 per cent in 1971 to 11 per cent in 1972. Gillette reasoned that growth must come at the expense of other brands. Thus, it concentrated its advertising and promotion on its newest shaving product and reduced support for its established lines.

Gillette launched Trac II during a World Series promotion and made it the most frequently advertised shaving system in America during its introductory period. Trac II users turned out to be predominantly young, college-educated men who lived in metropolitan and suburban areas and earned higher incomes. As the fastest-growing shaving product on the market for five years, Trac II drove the switch to twin blades. The brand reached its peak in 1976 when consumers purchased 485 million blades and 7 million razors.

Late in 1976, Gillette, apparently in response to BIC's pending entrance into the US market, launched Good News!, the first disposable razor for men sold in the United States. In 1975, BIC had introduced the first disposable shaver in Europe; and by 1976 BIC had begun to sell disposable razors in Canada. Gillette realised that BIC would move its disposable razor into the United States after its Canadian introduction, so it promptly brought out a new blue plastic disposable shaver with a twin-blade head. By year's end, Gillette also made Good News! available in Austria, Canada, France, Italy, Switzerland, Belgium, Greece, Germany and Spain.

Unfortunately for Gillette, Good News! was really bad news. The disposable shaver delivered lower profit margins than razor and blade systems, and it undercut sales of other Gillette products. Good News! sold for much less than the retail price of a Trac II cartridge. Gillette marketed Good News! on price and convenience, not performance; but the company envisioned the product as a step-up item leading to its traditional high-quality shaving systems.

This contain-and-switch strategy did not succeed. Consumers liked the price and the convenience of disposable razors, and millions of Trac II razors began to gather dust in medicine chests across the country. Many Trac II users figured out that for as little as 25 cents, they could get the same cartridge mounted on a plastic handle that they had been buying for 56 cents to put on their Trac II handle. Further, disposable razors created an opening for competitors in a category that Gillette had long dominated.

Gillette felt sure, however, that disposable razors would never gain more than a 7 per cent share of the market. The disposable razor market share soon soared past 10 per cent, forcing Gillette into continual upward revisions of its estimates. In terms of units sold, disposable razors reached a 22 per cent market share by 1980 and a 50 per cent share by 1988.

BIC and Gillette's successful introduction of the disposable razor represented a watershed event in 'commoditisation' – the process of converting well-differentiated products into commodities. Status, quality and perceived value had always played primary roles in the marketing of personal care products. But consumers were now showing that they would forgo performance and prestige in a shaving product – about as close and personal as one can get.

In 1977, Gillette introduced a new blade and razor system at the expense of Trac II. It launched Atra with a US$7 million advertising campaign and over 50 million US$2 rebate coupons. Atra (which stands for Automatic Tracking Razor Action) was the first twin-blade shaving cartridge with a pivoting head. Engineers had designed the head to follow a man's facial contours for a closer shave. Researchers began developing the product in Gillette's UK research and development lab in 1970. They had established a goal of improving the high-performance standards of twin-blade shaving and specifically enhancing the Trac II effect. The company's scientists discovered that moving the hand and face was not the most effective way to achieve the best blade-face shaving angle. The razor head itself produced a better shave if it pivoted so as to maintain the most effective shaving angle. Marketers selected the name 'Atra' after two years of extensive consumer testing.

Atra quickly achieved a 7 per cent share of the blade market and about one-third of the razor market. The company introduced Atra in Europe a year later under the brand name 'Contour'. Although Atra increased Gillette's share of the razor market, 40 per cent of Trac II users switched to Atra in the first year.

In the early 1980s, Gillette introduced most new disposable razors and product enhancements. Both Swivel (launched in 1980) and Good News! Pivot (1984) were disposable razors featuring movable heads. Gillette announced Atra Plus (the first razor with the patented Lubra-smooth lubricating strip) in 1985 just as

BIC began to move into the United States from Canada with the BIC shaver for sensitive skin. A few months later, Gillette ushered in Micro Trac – the first disposable razor with an ultra-slim head. Gillette priced the Micro Trac lower than any other Gillette disposable razor. The company claimed to have designed a state-of-the-art manufacturing process for Micro Trac. The process required less plastic, thus minimising bulk and reducing manufacturing costs. Analysts claimed that Gillette was trying to bracket the market with Atra Plus (with a retail price of US$3.99 to US$4.95) and Micro Trac (US$0.99), and protect its market share with products on both ends of the price and usage scale. Gillette also teased Wall Street with hints that, by the end of 1986, it would be introducing yet another state-of-the-art shaving system that could revolutionise the shaving business.

Despite these product innovations and introductions in the early 1980s, Gillette primarily focused its energies on its global markets and strategies. By 1985, it was marketing 800 products in more than 200 countries. The company felt a need at this time to coordinate its marketing efforts, first regionally and then globally.

Unfortunately for Gillette's management team, others noticed its strong international capabilities. Ronald Perelman, chairman of the Revlon Group, attempted an unfriendly takeover in November 1986. To fend off the takeover, Gillette bought back 9.2 million shares of its stock from Perelman and saddled itself with additional long-term debt to finance the stock repurchase. Gillette's payment to Perelman increased the company's debt load from US$827 million to US$1.1 billion, and put its debt-to-equity ratio at 70 per cent. Gillette and Perelman signed an agreement preventing Perelman from attempting another takeover until 1996.

In 1988, just as Gillette returned its attention to new product development and global marketing, Coniston Partners, after obtaining 6 per cent of Gillette's stock, engaged the company in a proxy battle for four seats on its 12-person board. Coniston's interest had been piqued by the Gillette-Perelman US$549 million stock buyback and its payment of US$9 million in expenses to Perelman. Coniston and some shareholders felt Gillette's board and management had repeatedly taken actions that prohibited its shareholders from realising their shares' full value. When the balloting concluded, Gillette's management won by a narrow margin – 52 to 48 per cent. Coniston made US$13 million in the stock buyback program that Gillette offered to all shareholders, but Coniston agreed not to make another run at Gillette until 1991. This second takeover attempt forced Gillette to increase its debt load to US$2 billion and pushed its total equity negative to (US$84.6 million).

More importantly, both takeover battles forced Gillette to 'wake up'. Gillette closed or sold its Jafra Cosmetics operations in 11 countries and jettisoned weak operations such as Misco, Inc. (a computer supplies business), and S.T. Dupont (a luxury lighter, clock and watchmaker). The company also thinned its workforce in many divisions, such as its 15 per cent staff reduction at the Paper Mate pen unit. Despite this pruning, Gillette's sales for 1988 grew 13 per cent to US$3.6 billion, and profits soared 17 per cent to US$268 million.

Despite Gillette's concentration on fending off takeover attempts, it continued to enhance its razor and blade products. In 1986, it introduced the Contour Plus in its first pan-European razor launch. The company marketed Contour Plus with one identity and one strategy. In 1988, the company introduced Trac II Plus, Good News! Pivot Plus and Daisy Plus – versions of its existing products with the Lubra-smooth lubricating strip.

Schick

Warner-Lambert's Schick served as the second major competitor in the wet-shaving business. Warner-Lambert, incorporated in 1920 under the name William R. Warner & Company, manufactured chemicals and pharmaceuticals. Numerous mergers and acquisitions over 70 years resulted in Warner-Lambert's involvement in developing, manufacturing and marketing a widely diversified line of beauty, health and well-being products. The company also became a major producer of mints and chewing gums, such as Dentyne, Sticklets and Trident. Exhibit 6 presents a list of Warner-Lambert's products by division as of 1988.

Warner-Lambert entered the wet-shave business through a merger with Eversharp in 1970. Eversharp, a long-time competitor in the wet-shave industry, owned the Schick trademark and had owned the Paper Mate Pen Company prior to selling it to Gillette in 1955. Schick's razors and blades produced US$180 million in revenue in 1987, or 5.2 per cent of Warner-Lambert's worldwide sales. (Refer to Exhibit 7 for operating results by division, and Exhibits 8 and 9 for income statement and balance sheet data.)

In 1989, Schick held approximately a 16.2 per cent US market share, down from its 1980 share of 23.8 per cent. Schick's market share was broken down as follows: blade systems, 8.8 per cent; disposable razors, 4.1 per cent; and double-edged blades and injectors, 3.3 per cent.

Schick's loss of market share in the 1980s occurred for two reasons. First, even though Schick pioneered the injector razor system (it controlled 80 per cent of this market by 1979), it did not market a disposable razor until mid-1984 – eight years after the first disposable razors appeared. Second, for years Warner-Lambert had been channelling Schick's cash flow to its research and development in drugs.

In 1986, the company changed its philosophy; it allocated US$70 million to Schick for a three-year period and granted Schick its own sales force. In spite of Schick's loss of market share, company executives felt they had room to play catch-up, especially by exploiting new technologies. In late 1988, Schick revealed that it planned to conduct 'guerrilla warfare' by throwing its marketing resources and efforts into new technological advances in disposable razors. As a result, Warner-Lambert planned to allocate the bulk of its US$8 million razor advertising budget to marketing its narrow-headed disposable razor, Slim Twin, which it introduced in August 1988.

Schick believed that the US unit demand for disposable razors would increase to 55 per cent of the market by the early 1990s from its 50 per cent share in 1988. Schick executives based this belief on their feeling that men would rather pay 30 cents for a disposable

Exhibit 6 | Warner-Lambert product lines by company division, 1988

Ethical pharmaceuticals	Gums and mints	Non-prescription products	Other products
Parke-Davis drug	Dentyne	Benadryl	Schick razors
	Sticklets	Caladryl	Ultrex razors
	Beemans	Rolaids	Personal Touch
	Trident	Sinutab	Tetra Aquarium
	Freshen-up	Listerex	
	Bubblicious	Lubraderm	
	Chiclets	Anusol	
	Clorets	Tucks	
	Certs	Halls	
	Dynamints	Benylin	
	Junior Mints	Listerine	
	Sugar Daddy	Listermint	
	Sugar Babies	Efferdent	
	Charleston Chew	Effergrip	
	Rascals		

Exhibit 7 | Warner-Lambert's net sales and operating profit by division, 1985–8 (US$mn)

		Net sales				Operating profit/(loss)			
Division		1988	1987	1986	1985	1988	1987	1986	1985
Healthcare	Ethical products	$1 213	$1 093	$ 964	$ 880	$ 420	$ 351	$ 246	$ 224
	Non-prescription products	1 296	1 195	1 077	992	305	256	176	177
	Total healthcare	2 509	2 288	2 041	1 872	725	607	422	401
	Gums and mints	918	777	678	626	187	173	122	138
	Other products*	481	420	384	334	92	86	61	72
Divested businesses									(464)
	R&D					(259)	(232)	(202)	(208)
	Net sales and operating profit	3 908	3 485	3 103	3 200	745	634	599	(61)

* Other products include Schick razors, which accounted for US$180 million in revenue in 1987.

Source: Warner-Lambert Company Annual Report, 1987; *Moody's Industrial Manual*.

razor than 75 cents for a refill blade. In 1988, Schick held an estimated 9.9 per cent share of dollar sales in the disposable razor market.

Schick generated approximately 67 per cent of its revenues overseas. Also, it earned higher profit margins on its non-domestic sales – 20 per cent versus its 15 per cent domestic margin. Europe and Japan represented the bulk of Schick's international business, accounting for 38 per cent and 52 per cent, respectively, of 1988's overseas sales. Schick's European business consisted of 70 per cent systems and 29 per cent disposable razors, but Gillette's systems and disposable razor sales were 4.5 and 6 times larger, respectively.

However, Schick dominated in Japan. Warner-Lambert held over 60 per cent of Japan's wet-shave market. Although Japan had typically been an electric shaver market (55 per cent of Japanese shavers use electric razors), Schick achieved an excellent record and reputation in Japan. Both Schick and Gillette entered the Japanese market in 1962; and their vigorous competition eventually drove Japanese competitors from the industry, which by 1988 generated US$190 million in sales. Gillette's attempt to crack the market flopped because it tried to sell razors using its own salespeople, a strategy that failed because Gillette did not have the distribution network available to Japanese companies. Schick, meanwhile, chose to leave the distribution to Seiko Corporation. Seiko imported razors from the United States and then sold them to wholesalers nationwide. By 1988, Schick generated roughly 40 per cent of its sales and 35 per cent of its profits in Japan. Disposable razors accounted for almost 80 per cent of those figures.

BIC Corporation

The roots of the BIC Corporation, which was founded by Marcel Bich in the United States in 1958, were in France. In 1945, Bich, who had been the production manager for a French ink manufacturer, bought a factory outside Paris to produce parts for fountain pens and mechanical lead pencils. In his new business, Bich became one of the first manufacturers to purchase presses to work with plastics. With his knowledge of inks and experience with plastics and moulding machines, Bich set himself up to become the largest pen manufacturer in the world. In 1949, Bich introduced his version of the modern ballpoint pen, originally invented in 1939, which he called 'BIC', a shortened, easy-to-remember version of his own name. He supported the pen with memorable, effective advertising; and its sales surpassed even his own expectations.

Realising that a mass-produced disposable ballpoint pen had universal appeal, Bich turned his attention to the US market. In 1958, he purchased the Waterman-Pen Company of Connecticut and then incorporated as Waterman-BIC Pen Corporation. The company changed

Exhibit 8 | Warner-Lambert income statements, 1986–8 (US$000)

		1988	1987	1986
Net sales		$3 908 400	$3 484 700	$3 102 918
Cost of sales		1 351 700	1 169 700	1 052 781
Other expenses		2 012 100	1 819 800	1 616 323
Operating income		544 600	495 200	433 814
Other income		61 900	58 500	69 611
Earnings before interest and tax		606 500	553 700	503 425
Interest expense		68 200	60 900	66 544
Earnings before tax		538 300	492 800	436 881
Tax		198 000	197 000	136 297
Non-recurring item		—	—	8 400
Earnings after tax		340 000	295 800	308 984
Retained earnings		1 577 400	1 384 100	1 023 218
Earnings per share		5.00	4.15	4.18
Average common shares outstanding (000)		68 035	71 355	73 985
Dividends paid per share		2.16	1.77	1.59
Stock price range	High	$79 1/2	$87 1/2	$63 1/8
	Low	$59 7/8	$48 1/4	$45

Source: *Moody's Industrial Manual.*

Exhibit 9 | Warner-Lambert balance sheets, 1986–8 (US$000)

		1988	1987	1986
Assets	Cash	$ 176 000	$ 24 100	$ 26 791
	Receivables	525 200	469 900	445 743
	Inventories	381 400	379 000	317 212
	Other current assets	181 300	379 600	720 322
	Total current assets	1 264 500	1 252 600	1 510 068
	Fixed assets, net	1 053 000	959 800	819 291
	Other assets	385 300	263 500	186 564
	Total assets	2 702 800	2 475 900	2 515 923
Liabilities and equity	Current liabilities*	1 025 200	974 300	969 806
	Current portion long-term debt	7 100	4 200	143 259
	Long-term debt	318 200	293 800	342 112
	Equity	$ 998 600	$ 874 400	$ 907 322

*Includes current option of long-term debt.

Source: *Moody's Industrial Manual*.

its name to BIC Pen in 1971 and finally adopted the name BIC Corporation for the publicly owned corporation in 1982.

After establishing itself as the country's largest pen maker, BIC attacked another market – the disposable lighter market. When BIC introduced its lighter in 1973, the total disposable lighter market stood at only 50 million units. By 1984, BIC had become so successful at manufacturing and marketing its disposable lighters that Gillette, its primary competitor, abandoned the lighter market. Gillette sold its Cricket division to Swedish Match, Stockholm, the manufacturer of Wilkinson razors. By 1989, the disposable lighter market had grown to nearly 500 million units, and BIC lighters accounted for 60 per cent of the market.

Not content to compete just in the writing and lighting markets, BIC decided to enter the US shaving market in 1976. A year earlier, the company had launched the BIC Shaver in Europe and Canada. BIC's entrance into the US razor market started an intense rivalry with Gillette. Admittedly, the companies were not strangers to each other – for years they had competed for market share in the pen and lighter industries. Despite the fact that razors were Gillette's primary business and an area where the company had no intention of relinquishing market share, BIC established a niche in the US disposable-razor market.

BIC, like Gillette, frequently introduced new razor products and product enhancements. In January 1985, following a successful Canadian test in 1984, BIC announced the BIC Shaver for Sensitive Skin. BIC claimed that 42 per cent of the men surveyed reported that they had sensitive skin, while 51 per cent of those who had heavy beards reported that they had sensitive skin. Thus, BIC felt there was a clear need for a shaver that addressed this special shaving problem. The US$10 million ad campaign for the BIC Shaver for Sensitive Skin featured John McEnroe, a highly ranked and well-known tennis professional, discussing good and bad backhands and normal and sensitive skin. BIC repositioned the original BIC white shaver as the shaver men with normal skin should use, while it promoted the new BIC Orange as the razor for sensitive skin.

BIC also tried its commodity strategy on sailboards, car-top carriers and perfume. In 1982, BIC introduced a sailboard model at about half the price of existing products. The product generated nothing but red ink. In April 1989, the company launched BIC perfumes with US$15 million in advertising support. BIC's foray into fragrances was as disappointing as its sailboard attempt. Throughout the year, Parfum BIC lost money, forcing management to concentrate its efforts on reformulating its selling theme, advertising, packaging and price points. Many retailers rejected the product, sticking BIC with expensive manufacturing facilities in Europe. BIC found that consumers' perceptions of commodities did not translate equally into every category. For example, many women cut corners elsewhere just to spend lavishly on their perfume. The last thing they wanted to see was their favourite scent being hawked to the masses.

Despite these failures, BIC Corporation was the undisputed king of the commoditisers. BIC's success with pens and razors demonstrated the upside potential

Exhibit 10 | BIC Corporation's net sales and income before taxes, 1986–8 (US$mn)

		1988	1987	1986
Net sales	Writing instruments	$118.5	$106.7	$91.7
	Lighters	113.9	120.0	115.0
	Shavers	51.9	47.1	49.6
	Sport	10.6	16.8	11.3
	Total	294.9	290.6	267.6
Profit/(loss) before taxes	Writing instruments	$16.7	$17.5	$15.0
	Lighters	22.9	28.2	28.5
	Shavers	9.4	8.5	8.0
	Sport	(4.7)	(3.5)	(3.6)
	TOTALS	44.3	50.7	47.9

Source: BIC Annual Reports, 1986–8.

Exhibit 11 | BIC Corporation consolidated income statements, 1986–8 (US$000)

		1988	1987	1986
Net sales		$294 878	$290 616	$267 624
Cost of sales		172 542	165 705	147 602
Other expenses		81 023	73 785	67 697
Operating income		41 313	51 126	52 325
Other income		4 119	1 836	7 534
Earnings before interest and tax		45 432	52 962	59 859
Interest expense		1 097	2 301	11 982
Earnings before tax		44 335	50 661	47 877
Tax		17 573	21 944	24 170
Extraordinary credit		—	—	2 486*
Utilisation of operating loss carry forward		2 800	—	—
Earnings after tax		$ 29 562	$ 28 717	$ 26 193
Retained earnings		159 942	142 501	121 784
Earnings per share		2.44	2.37	2.16
Average common shares outstanding (000)		12 121	12 121	12 121
Dividends paid per share		0.75	0.66	0.48
Stock price range	High	$30 3/8	$34 7/8	$35
	Low	$24 3/8	$16 1/2	$23 1/4

*Gain from elimination of debt.

Source: *Moody's Industrial Manual*; BIC Annual Reports.

of commoditisation, while its failures with sailboards and perfumes illustrated the limitations. BIC concentrated its efforts on designing, manufacturing and delivering the 'best' quality products at the lowest possible prices. And although the company produced large quantities of disposable products (for example, over 1 million pens a day), it claimed that each product was invested with the BIC philosophy: 'maximum service, minimum price'.

One of BIC's greatest assets was its retail distribution strength. The high profile the company enjoyed at supermarkets and drugstores enabled it to win locations in the aisles and display space at the checkout – the best positioning.

Even though BIC controlled only the number three spot in the wet-shaving market by 1989, it had exerted quite an influence since its razors first entered the US market in 1976. In 1988, BIC's razors generated US$52

Exhibit 12 | BIC Corporation balance sheets, 1986–8 (US$000)

		1988	1987	1986
Assets	Cash	$ 5 314	$ 4 673	$ 5 047
	Certificates of deposit	3 117	803	6 401
	Receivables, net	43 629	41 704	32 960
	Inventories	70 930	59 779	50 058
	Other current assets	37 603	47 385	34 898
	Deferred income taxes	7 939	6 691	5 622
	Total current assets	168 532	161 035	134 986
	Fixed assets, net	74 973	62 797	58 385
	Total assets	243 505	223 832	193 371
Liabilities and equity	Current liabilities*	55 031	54 034	45 104
	Current portion long-term debt	157	247	287
	Long-term debt	1 521	1 511	1 789
	Equity	$181 194	$164 068	$142 848

*Includes current portion of long-term debt.

Source: *Moody's Industrial Manual*.

million in sales with a net income of US$9.4 million; BIC held a 22.4 per cent share of dollar sales in the disposable razor market. Exhibit 10 presents operating data by product line, and Exhibits 11 and 12 give income statement and balance sheet data.

The introduction of the disposable razor revolutionised the industry and cut into system razor profits. However, despite the low profit margins in disposable razors and the fact that the industry leader, Gillette, emphasised razor and blade systems, BIC remained bullish on the disposable razor market. In 1989, a spokesperson for BIC claimed that BIC 'was going to stick to what consumers liked'. The company planned to continue marketing only single-blade, disposable shavers. BIC stated that it planned to maintain its strategy of underpricing competitors, but it would also introduce improvements such as the patented metal guard in its BIC Metal Shaver. Research revealed that the BIC Metal Shaver provided some incremental, rather than substitute, sales for its shaver product line. BIC executives believed that the BIC Metal Shaver would reach a 5–8 per cent market share by 1990.

Wilkinson Sword

Swedish Match Holding Incorporated's subsidiary, Wilkinson Sword, came in as the fourth player in the US market. Swedish Match Holding was a wholly owned subsidiary of Swedish Match AB, Stockholm, Sweden. The parent company owned subsidiaries in the United States that imported and sold doors, produced resilient and wood flooring, and manufactured branded razors, blades, self-sharpening scissors and gourmet kitchen knives. (Exhibits 13 and 14 present income statement and balance sheet data on Swedish Match AB.)

A group of swordsmiths founded Wilkinson in 1772, and soldiers used Wilkinson swords at Waterloo, at the charge of the Light Brigade and in the Boer War. However, as the sword declined as a combat weapon, Wilkinson retreated to producing presentation and ceremonial swords. By 1890, Wilkinson's cutlers had begun to produce straight razors, and by 1898 it was producing safety razors similar to King Gillette's. When Gillette's blades became popular in England, Wilkinson made stroppers to resharpen used blades. Wilkinson failed in the razor market, however, and dropped out during the Second World War.

By 1954, Wilkinson decided to look again at the shaving market. Manufacturers used carbon steel to make most razor blades at that time, and such blades lost their serviceability rapidly due to mechanical and chemical damage. Gillette and other firms had experimented with stainless steel blades; but they had found that despite their longer-lasting nature, the blades did not sharpen well. But some men liked the durability; and a few small companies produced stainless steel blades.

Wilkinson purchased one such small German company and put Wilkinson Sword blades on the market in 1956. Wilkinson developed a coating for the stainless blades (in the same fashion that Gillette had coated the Super Blue Blade) that masked their rough

Exhibit 13 | Swedish Match AB income statements, 1986–8 (US$000)

		1988	1987	1986
Net sales		$2 814 662	$2 505 047	$1 529 704
Cost of sales		N/A	N/A	N/A
Operating expenses		2 541 128	2 291 023	1 387 360
Other expenses		108 206	95 420	48 711
Earnings before interest		165 328	118 604	93 633
Interest expense		5 386	19 084	21 618
Earnings before tax		159 942	99 520	72 015
Tax		57 612	29 996	39 165
Earnings after tax		102 330	69 554	32 850
Dividends paid per share		0.53	0.51	1.75
Stock price range	High	22.53	19.65	66.75
	Low	$ 15.00	$ 11.06	$ 22.00

Source: *Moody's Industrial Manual.*

Exhibit 14 | Swedish Match AB balance sheets, 1986–8 (US$000)

		1988	1987	1986
Assets	Cash and securities	$ 159 616	$ 117 027	$323 993
	Receivables	611 372	561 479	297 321
	Inventories	421 563	415 116	258 858
	Total current assets	1 192 551	1 093 622	880 172
	Fixed assets, net	707 664	671 409	397 411
	Other assets	161 085	132 799	93 211
	Total assets	2 061 300	1 897 830	370 794
Liabilities and equity	Current liabilities	996 214	905 778	576 534
	Current portion long-term debt			
	Long-term debt	298 505	316 542	244 118
	Equity			

Source: *Moody's Industrial Manual.*

edges, allowing the blades to give a comfortable shave and to last two to five times longer than conventional blades. Wilkinson called the new blade the Super Sword-Edge. Wilkinson introduced the blades in England in 1961 and in the United States in 1962, and they became a phenomenon. Schick and American Safety Razor followed a year later with their own stainless steel blades, the Krona-Plus and Personna. Gillette finally responded in late 1963 with its own stainless steel blade; and by early 1964 Gillette's blades were outselling Wilkinson, Schick and Personna combined. Wilkinson, however, had forever changed the nature of the razor blade.

In 1988, Wilkinson Sword claimed to have a 4 per cent share of the US wet-shave market; and it was predicting a 6 per cent share by mid-1990. Industry analysts, however, did not confirm even the 4 per cent share; they projected Wilkinson's share to be closer to 1 per cent. Wilkinson introduced many new products over the years, but they generally proved to be short-lived. The company never really developed its US franchise.

However, in late 1988, Wilkinson boasted that it was going to challenge the wet-shave category leader by introducing Ultra-Glide, its first lubricating shaving system. Wilkinson designed Ultra-Glide to go head-to-head with Gillette's Atra Plus and Schick's Super II Plus and Ultrex Plus. Wilkinson claimed that Ultra-Glide represented a breakthrough in shaving technology because of an ingredient, hydromer, in its patented lubricating strip. According to Wilkinson, the Ultra-

Glide strip left less residue on the face and provided a smoother, more comfortable shave by creating a cushion of moisture between the razor and the skin.

Wilkinson introduced Ultra-Glide in March 1989 and supported it with a US$5 million advertising and promotional campaign (versus the Atra Plus US$80 million multimedia investment in the United States). Wilkinson priced Ultra-Glide 5–8 per cent less than Atra Plus. Wilkinson was undaunted by Gillette's heavier advertising investment, and it expected to cash in on its rival's strong marketing muscle. Wilkinson did not expect to overtake Gillette but felt its drive should help it capture a double-digit US market share within two to three years.

Many were sceptical about Wilkinson's self-predicted market share growth. One industry analyst stated, 'Gillette dominates this business. Some upstart won't do anything.' One Gillette official claimed his company was unfazed by Wilkinson. In fact, he was quoted as saying, in late 1988, 'They [Wilkinson] don't have a business in the US; they don't exist.'

Nonetheless, Gillette became enraged and filed legal challenges when Wilkinson's television ads for Ultra-Glide broke in May 1989. The ads stated that Ultra-Glide's lubricating strip was six times smoother than Gillette's strip and that men preferred it to the industry leader's. All three major networks had reservations about continuing to air the comparison commercials. CBS and NBC stated that they were going to delay airing the company's ads until Wilkinson responded to questions they had about its ad claims. In an 11th-hour counterattack, Wilkinson accused Gillette of false advertising and of trying to monopolise the wet-shave market.

GILLETTE'S SOUTH BOSTON PLANT

Robert Squires left his work station in the facilities engineering section of Gillette's South Boston manufacturing facility and headed for the shave test lab. He entered the lab area and walked down a narrow hall. On his right were a series of small cubicles Gillette had designed to resemble the sink area of a typical bathroom. Robert opened the door of his assigned cubicle precisely at his scheduled 10 a.m. time. He removed his dress shirt and tie, hanging them on a hook beside the sink. Sliding the mirror up as one would a window, Robert looked into the lab area. Rose McCluskey, a lab assistant, greeted him.

'Morning, Robert. See you're right on time as usual. I've got your things all ready for you.' Rose reached into a recessed area on her side of the cubicle's wall and handed Robert his razor, shave cream, aftershave lotion and a clean towel.

'Thanks, Rose. Hope you're having a good day. Anything new you've got me trying today?'

'You know I can't tell you that. It might spoil your objectivity. Here's your card.' Rose handed Robert a shaving evaluation card (see Exhibit 15).

Robert Squires had been shaving at the South Boston Plant off and on for all of his 25 years with Gillette. He was one of 200 men who shaved every work day at the plant. Gillette used these shavers to compare its products' effectiveness with competitors' products. The shavers also conducted R&D testing of new products and quality control testing for manufacturing. An additional seven to eight panels of 250 men each shaved every day in their homes around the country, primarily conducting R&D shave testing.

Like Robert, each shaver completed a shave evaluation card following every shave. Lab assistants like Rose entered data from the evaluations to allow Gillette researchers to analyse the performance of each shaving device. If a product passed R&D hurdles, it became the responsibility of the marketing research staff to conduct consumer-use testing. Such consumer testing employed 2 000 to 3 000 men who tested products in their homes.

From its research, Gillette had learned that the average man had 30 000 whiskers on his face that grew at the rate of half an inch (1.3 centimetres) per month. He shaved 5.8 times a week and spent three to four minutes shaving each time. A man with a life span of 70 years would shave more than 20 000 times, spending 3 350 hours (130 days) removing 27.5 feet (8.4 metres) of facial hair. Yet, despite all the time and effort involved in shaving, surveys found that if a cream were available that would eliminate facial hair and shaving, most men would not use it.

Robert finished shaving and rinsed his face and shaver. He glanced at the shaving head. A pretty good shave, he thought. The cartridge had two blades, but it seemed different. Robert marked his evaluation card and slid it across the counter to Rose.

William Mazeroski, manager of the South Boston shave test lab, walked into the lab area carrying computer printouts with the statistical analysis of last week's shave test data.

Exhibit 15 | Gillette shaving evaluation card

NUMB. ________ CODE ________ STA TEST#________ NAME ________________ EMP.# ________ DATE ________

IN-PLANT SHAVE TEST SCORECARD

INSTRUCTIONS: Please check one box in each column

Overall evaluation of shave	Freedom from nicks and cuts	Caution	Closeness	Smoothness	Comfort
❑ Excellent	❑ Excellent	❑ Exceptionally safe	❑ Exceptionally close	❑ Exceptionally smooth	❑ Exceptionally comfortable
❑ Very good	❑ Very good	❑ Unusually safe	❑ Very close	❑ Very smooth	❑ Very comfortable
❑ Good	❑ Good	❑ Average	❑ Average	❑ Average	❑ Average comfort smoothness
❑ Fair	❑ Fair	❑ Slight caution needed	❑ Fair	❑ Slight pull	❑ Slight irritation
❑ Poor	❑ Poor	❑ Excessive caution needed	❑ Poor	❑ Excessive pull	❑ Excessive irritation

Source: The Gillette Company.

Noticing Robert, William stopped. 'Morning, Robert. How was your shave?'

'Pretty good. What am I using?'

'Robert, you are always trying to get me to tell you what we're testing! We have control groups and experimental groups. I can't tell you which you are in, but I was just looking at last week's results, and I can tell you that it looks like we are making progress. We've been testing versions of a new product since 1979, and I think we're about to get it right. Of course, I don't know if we'll introduce it or even if we can make it in large quantities, but it looks good.'

'Well, that's interesting. At least I know I'm involved in progress. And, if we do decide to produce a new shaver, we'll have to design and build the machines to make it ourselves because there is nowhere to go to purchase blade-making machinery. Well, I've got to get back now; see you tomorrow.'

Thirty-Seventh Floor, The Prudential Center

Paul Hankins leaned over the credenza in his 37th-floor office in Boston's Prudential Center office building and admired the beauty of the scene that spread before him. Paul felt as though he were watching an impressionistic painting in motion. Beyond the green treetops and red brick buildings of Boston's fashionable Back Bay area, the Charles River wound its way towards Boston Harbor. Paul could see the buildings on the campuses of Harvard, MIT and Boston University scattered along both sides of the river. Soon the crew teams would be out practising. Paul loved to watch the precision with which the well-coordinated teams propelled the boats up and down the river. If only, he thought, we could be as coordinated as those crew teams.

Paul had returned to Boston in early 1988 when Gillette created the North Atlantic Group by combining what had been the North American and the European operations. Originally from Boston, he had attended Columbia University and earned an MBA at Dartmouth's Tuck School. He had been with Gillette for 19 years. Prior to 1988, he had served as marketing director for Gillette Europe from 1983 to 1984, as the country manager for Holland from 1985 to 1986, and finally as manager of Holland and the Scandinavian countries.

During this 1983–7 period, Paul had worked for Jim Pear, vice president of Gillette Europe, to implement a pan-European strategy. Prior to 1983, Gillette had organised and managed Europe as a classic decentralised market. To meet the perceived cultural nuances within each area, the company had treated each country as a separate market. For example, Gillette offered the same products under a variety of sub-brand names. The company sold its Good News! disposable razors under the name 'Blue II' in the United Kingdom, 'Parat' in Germany, 'Gillette' in France and Spain, 'Radi e Getta' (shave and throw) in Italy, and 'Economy' in other European markets.

Jim Pear believed that in the future Gillette would have to organise across country lines, and he had developed the pan-European idea. He felt that shaving was a universal act and that Gillette's razors were a perfect archetype for a 'global' product.

Gillette had launched Contour Plus, the European version of Atra Plus, in 1985–6 and had experienced greater success than the US launch which took place at the same time. The pan-European strategy seemed to be both more efficient and more effective. Colman Mockler, Gillette's chairman, noticed the European success and asked Pear to come to Boston to head the new North Atlantic Group. Paul had come with him as vice president of marketing for the Shaving and Personal Care Group.

Paul turned from the window as he heard people approaching. Sarah Kale, vice president of Marketing Research; Brian Mullins, vice president of marketing, Shaving and Personal Care Group; and Scott Friedman, business director, Blades and Razors, were at his door.

'Ready for our meeting?' Scott asked.

'Sure, come on in. I was just admiring the view.'

'The purpose of this meeting,' Paul began, 'is to begin formulating a new strategy for Gillette North Atlantic, specifically for our shaving products. I'm interested in your general thoughts and analysis. I want to begin to identify options and select a strategy to pursue. What have you found out?'

'Well, here are the market share numbers you asked me to develop,' Scott observed as he handed each person copies of tables he had produced (see Exhibits 16 and 17). Like Paul, Scott had earned an MBA from the Tuck School and had been with Gillette for 17 years.

'These are our US share numbers through 1988. As you can see, Atra blades seem to have levelled off and Trac II blades are declining. Disposable razors now account for over 41 per cent of the market, in dollars, and for over 50 per cent of the market in terms of units. In fact, our projections indicate that disposable razors will approach 100 per cent of the market by the mid- to late 1990s given current trends. Although we have 56 per cent of the blade market and 58 per cent of the disposable razor market, our share of the disposable razor market has fallen. Further, you are aware that every 1 per cent switch from our system razors to our disposable razors represents a loss of US$10 million on the bottom line.'

'I don't think any of this should surprise us,' Sarah Kale interjected. Sarah had joined Gillette after graduating from Simmons College in Boston and had been with the firm for 14 years. 'If you look back over the 1980s, you'll see that we helped cause this problem.'

'What do you mean by that?' asked Paul.

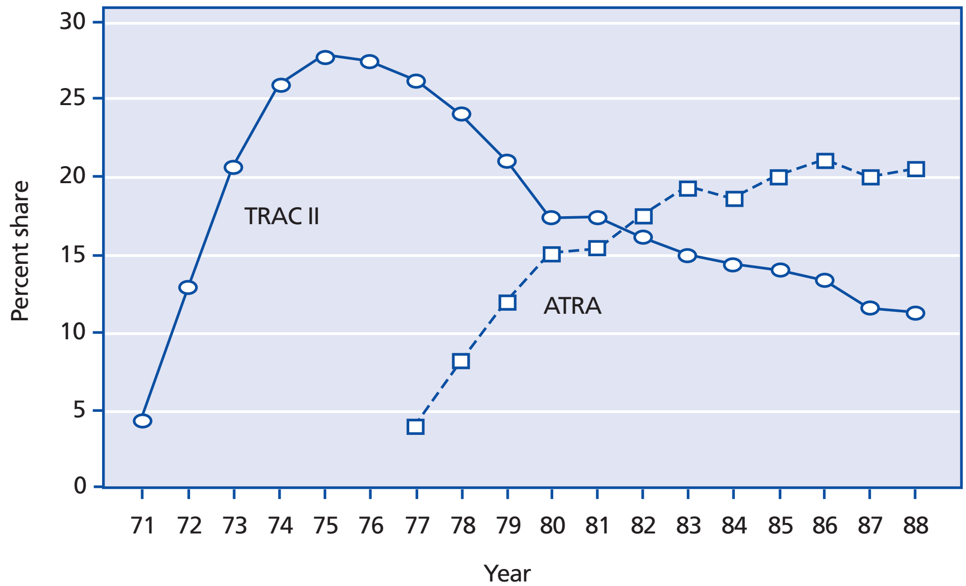
'Well, as market leader, we never believed that the use of disposable razors would grow as it has. We went along with the trend, but we kept prices low on our disposable razors, which made profitability worse for both us and our competition because they had to take our price into consideration in setting their prices. Then, to compensate for the impact on our profitability from the growth of the disposable razor market, we were raising the prices on our system razors. This made disposable razors even more attractive for price-sensitive users and further fuelled the growth of disposable razors. This has occurred despite the fact that our market research shows that men rate system shavers significantly better than disposable razors. We find that the weight and balance contributed by the permanent handle used with the cartridge contributes to a better shave.'

Exhibit 16 | Gillette market share of dollar sales, 1981–8 (per cent)

Product or category	1981	1982	1983	1984	1985	1986	1987	1988
Atra blades	15.4	17.3	19.4	18.7	20.2	20.9	20.0	20.5
Trac II blades	17.5	16.4	15.2	14.6	14.1	13.5	11.8	11.4
Gillette blades	47.3	48.9	52.1	54.2	55.8	57.1	54.1	56.0
Gillette disposables	14.3	15.4	17.4	20.0	21.1	22.7	22.2	24.0
All disposables	23.0	23.2	27.0	30.6	32.7	34.9	38.5	41.1
Gillette disposables as % of all disposables	67.9	66.9	64.7	65.7	64.6	64.2	57.6	58.4
Gillette razors	50.3	52.5	54.9	58.8	62.2	67.6	64.1	61.0

Source: Prudential-Bache Securities.

Exhibit 17 | Gillette system cartridges, 1971–88 (dollar share of US blade market)



Source: The Gillette Company; Prudential-Bache Securities.

'Yes, but every time I tell someone that,' Paul added, 'they just look at me as if they wonder if I really believe that or if it is just Gillette's party line.'

'There's one other thing we've done,' Scott added. 'Look at this graph of our advertising expenditures in the US over the 1980s [see Exhibit 18]. In fact, in constant 1987 dollars, our advertising spending has fallen from US$61 million in 1975 to about US$15 million in 1987. We seem to have just spent what was left over on advertising. We are now spending about one-half of our advertising on Atra and one-half on Good News!. Tentative plans call for us to increase the share going to Good News!. Our media budget for 1988 was about US$43 million. Further, we've tried three or four themes, but we haven't stuck with any one for very long. We're using the current theme, "The Essence of Shaving", for both system and disposable products. Our advertising has been about 90 per cent product-based and 10 per cent image-based.'

'Well, Scott's right,' Sarah noted, 'but although share of voice is important, share of mind is what counts. Our most recent research shows a significant difference in how we are perceived by male consumers based on their age. Men over 40 still remember Gillette, despite our reduced advertising, from their youth. They remember Gillette's sponsorship of athletic events, like the Saturday Baseball Game of the Week and the Cavalcade of Sports. They remember "Look Sharp! Feel Sharp! Be Sharp" and Sharpie the Parrot. They remember their fathers loaning them their Gillette razors when they started shaving. There is still a strong connection between Gillette and the male image of shaving.'

'How about with younger men?' asked Brian. Brian had joined Gillette in 1975 after graduating from Washington and Lee University and earning a master's degree in administration from George Washington University.

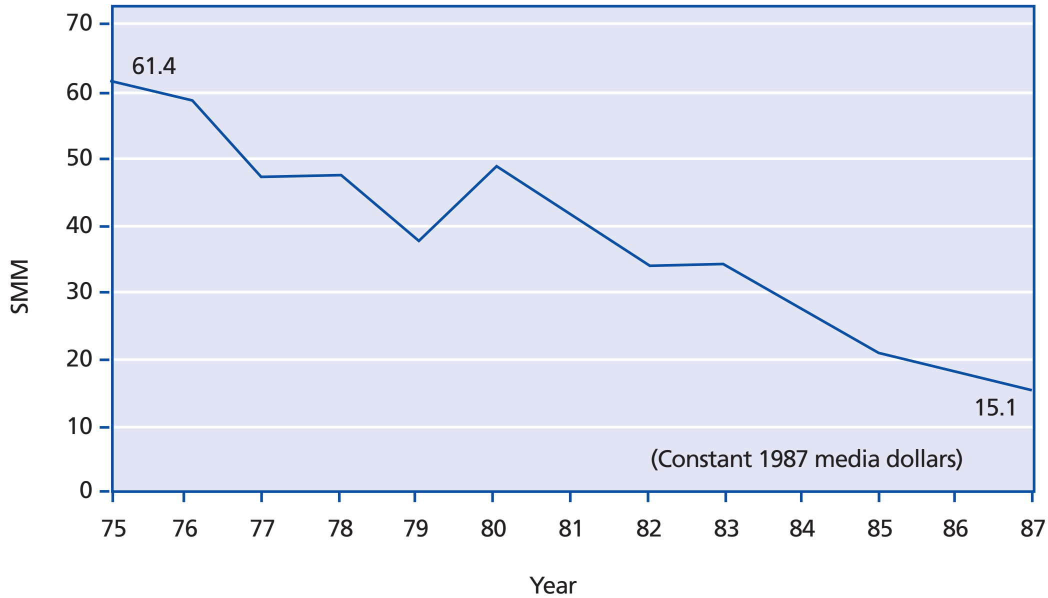
'Younger men's views can be summed up simply – twin blade, blue and plastic,' Sarah reported.

'Just like our disposable razors!' Paul exclaimed.

'Precisely,' Sarah answered. 'As I say, we've done this to ourselves. We have a "steel" man and "plastic" man. In fact, for males between 15 and 19, BIC is better known than Gillette with respect to shaving. Younger men in general – those under 30, these "plastic" men – feel all shavers are the same. Older men and system users feel there is a difference.'

'Yes,' Paul interjected, 'and I've noticed something else interesting. Look at our logos. We use the Gillette brand name as our corporate name, and the brand name is done in thin, block letters. I'm not sure it has the impact and masculine image we want. On top of that, look at these razor packages. We have become so product-focused and brand-manager-driven that we've lost focus on the brand name. Our brands look tired: there's nothing special about our retail packaging and display.'

Exhibit 18 | Blade and razor media spending, United States, 1975–87



Source: The Gillette Company.

'Speaking of the male image of shaving, Sarah, what does your research show about our image with women?' asked Brian.

'Well, we've always had a male focus and women identify the Gillette name with men and shaving, even those who use our products marketed to women. You know that there are more women wet shavers than men in the US market, about 62 million versus 55 million. However, due to seasonability and lower frequency of women's shaving, the unit volume used by women is only about one-third that of the volume used by men. Women use about eight to 12 blades a year versus 25 to 30 for men. It is still very consistent for us to focus on men.'

'Well, we've got plenty of problems on the marketing side, but we also have to remember that we are part of a larger corporation with its own set of problems,' Brian suggested. 'We're only 30 per cent or so of sales but we are 60 per cent of profits. And, given the takeover battles, there is going to be increased pressure on the company to maintain and improve profitability. That pressure has always been on us, but now it will be more intense. If we want to develop some bold, new strategy, we are going to have to figure out where to get the money to finance it. I'm sure the rest of the corporation will continue to look to us to throw off cash to support diversification.'

'This can get depressing,' Paul muttered as he looked back at the window. 'I can sense the low morale inside the company. People sense the inevitability of disposability. We see BIC as the enemy even though it is so much smaller than Gillette. We've got to come up with a new strategy. What do you think our options are, Scott?'

'Well, I think we're agreed that the "do-nothing" option is out. If we simply continue to do business as usual, we will see the erosion of the shaving market's profitability as disposable razors take more and more share. We could accept the transition to disposable razors and begin to try to segment the disposable razor market based on performance. You might call this the "give up" strategy. We would be admitting that disposable razors are the wave of the future. There will obviously continue to be shavers who buy based on price only, but there will also be shavers who will pay more for disposable razors with additional benefits, such as lubricating strips or movable heads. In Italy, for example, we have done a lot of image building and focused on quality. Now, Italian men seem to perceive that our disposable razors have value despite their price. In other words, we could try to protect the category's profitability by segmenting the market and offering value to those segments willing to pay for it. We would de-emphasize system razors.

'Or, we could try to turn the whole thing around. We could develop a strategy to slow the growth of disposable razors and to reinvigorate the system razor market.'

'How does the new razor system fit into all this?' Paul asked.

'I'm pleased that we have continued to invest in R&D despite our problems and the takeover battles,' Brian answered. 'Reports from R&D indicate that the new shaver is doing well in tests. But it will be expensive to take to market and to support with advertising. Further, it doesn't make any sense to launch it unless it fits in with the broader strategy. For example, if we decide to focus on disposable razors, it makes no sense to launch a new system razor and devote resources to that.'

'What's the consumer testing indicating?' asked Scott.

'We're still conducting tests,' Sarah answered, 'but so far the results are very positive. Men rate the shave superior to both Atra or Trac II and superior to our competition. In fact, I think we'll see that consumers rate the new shaver as much as 25 per cent better on average. The independently spring-mounted twin blades deliver a better shave, but you know we've never introduced a product until it was clearly superior in consumer testing on every dimension.'

'Okay. Here's what I'd like to do,' Paul concluded. 'I'd like for each of us to devote some time to developing a broad outline of a strategy to present at our next meeting. We'll try to identify and shape a broad strategy then that we can begin to develop in detail over the next several months. Let's get together in a week, same time. Thanks for your time.'

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